



# INTERNAL AUDIT SUBSTANTIVE TESTING PURCHASING CARDS

June 5, 2006

Roanoke City Council Audit Committee  
Roanoke, Virginia

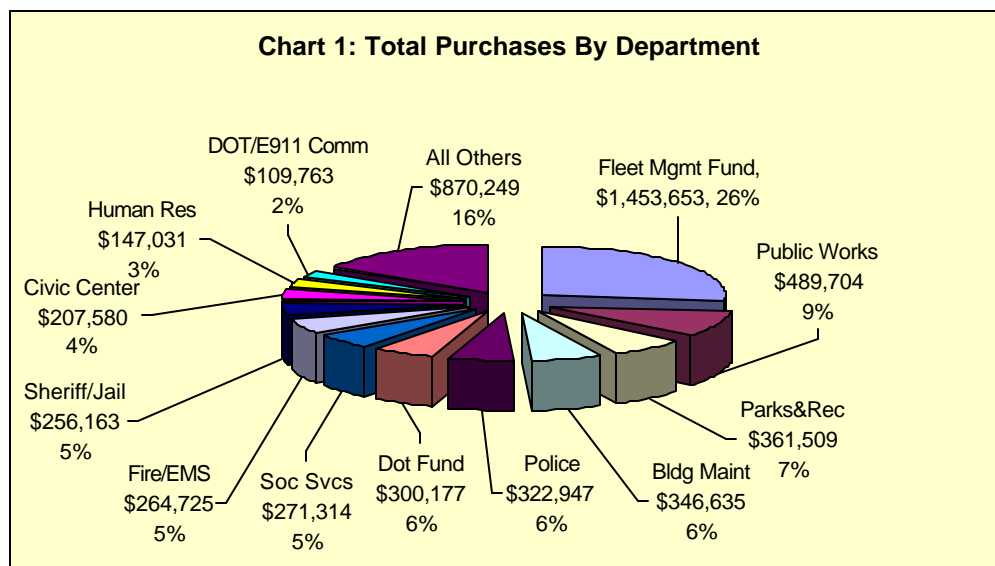
We have completed our audit of the purchasing card transactions. Our audit was performed in accordance with generally accepted government auditing standards.

## **BACKGROUND**

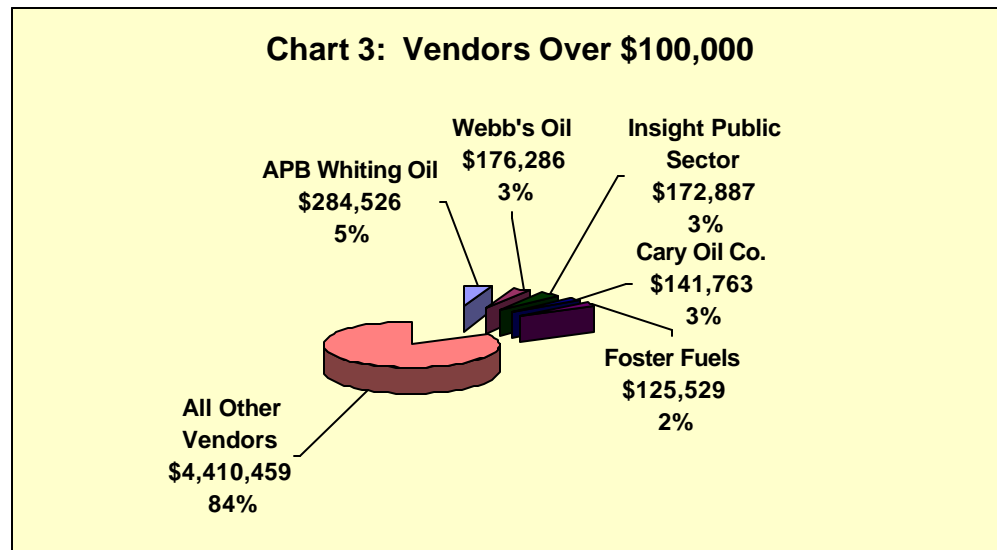
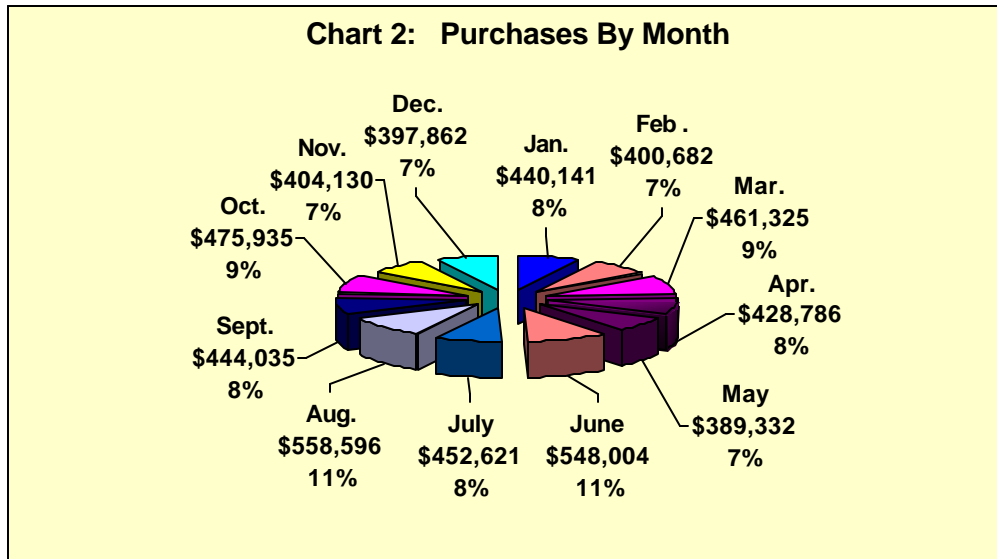
In early 2001, the city began to use purchasing cards to simplify the procurement process for small dollar purchases. The card allowed employees to make purchases without having to complete purchase orders or receivers. Correspondingly, this reduced the number of purchase orders processed by the Purchasing division and the number of checks issued by the Department of Finance.

City issued purchasing cards are accepted anywhere that MasterCard is accepted and are generally used for purchases of up to \$2,500 per transaction and \$15,000 per month. Departments can request an adjustment up or down on these limits if there is a justifiable need. Transactions are restricted to certain types of purchases and the card is blocked from use at selected merchant category types.

The total number of transactions for the audit period of January 1, 2005 – December 31, 2005 was 26,150 with a cumulative value of \$5,401,450. There are approximately 350 active purchasing cards used by approximately 55 departments. Charges by department are broken down on chart 1 below.



Charges by month and vendor are shown in charts 2 and 3 respectively.



Employees are responsible for obtaining a receipt for each purchase. Department managers are responsible for overseeing employee purchases and ensuring purchases are appropriate and comply with city policies. Assistant city managers are responsible for reviewing the purchases of department/division managers. The Department of Finance downloads a "bill" from the card provider which details each transaction that posted during the month. Finance provides each department an Excel file of their transactions and requires the department to insert account codes for each. In addition to the spreadsheet, each department receives a paper statement directly from the card provider. Once they receive this statement, departments are required to reconcile their purchases for the monthly period to the statement and forward it, along with all original itemized receipts, to Finance. If the department does not have a receipt for a purchase, they must first exhaust all efforts to secure a duplicate from the vendor before substituting an affidavit stating the validity of the purchase. It is highly emphasized that the use of an

affidavit is to be a last resort. The reconciliation must then be signed by the department manager and forwarded to Finance.

The Purchasing division is responsible for administering the Purchasing Card Program. Purchasing provided a training session in February 2004 to refresh cardholders' knowledge of the policies and procedures governing the use of purchasing cards. All cardholders, as well as employees who authorize transactions, were required to attend. Purchasing is in the process of implementing a training class that will be held four times a year. All purchasing card applicants must attend a training session before receiving a card. In addition, Purchasing is updating the program guide which will be accessible on the city's intranet site.

Both Purchasing and Finance have initiated monthly transaction audits. The Finance audits focus on targeted spot checks of statements for proper documentation while the Purchasing audits focus primarily on targeted checks for procurement policy compliance.

## **PURPOSE**

The purpose of this audit was to evaluate the following in respect to purchasing cards:

- Reasonableness of purchases
- Compliance with established policies and procedures
- Existence of assets purchased

## **SCOPE**

Our audit focused on procedures in place as of January 1, 2005, and transactions occurring from January 1, 2005, through December 31, 2005, excluding all library transactions covered under a separate audit.

## **METHODOLOGY**

We reviewed 26,150 purchasing card transactions totaling over \$5.4 million. We analyzed the transactions to gain an understanding of general purchasing trends. We looked for unusual vendors based on the card used, amounts close to established single transaction limits, and combined amounts that exceeded single transaction limits. We reviewed transactions purchased with department directors' and managers' cards. We developed interval samples to verify proper approval of purchases, compliance with established spending limits, timely deactivation of terminated employees' cards, assets purchased were received and retained by the city, and adequate documentation was on file for purchases.

## **RESULTS**

We reviewed individual transactions to verify that purchases appeared reasonable. We questioned users about particular transactions and did not note any unreasonable purchases. We specifically examined purchases made by department directors, managers, and supervisors. We reviewed individual and monthly transaction spending limits on the cards. We verified 20 assets purchased with p-cards were received and retained. We noted that the related card controls were generally functioning properly.

During test work, we identified the following issues related to the Purchasing Card Program.

### **Finding 01 – Approval Signatures**

City Administrative Procedure 3.5, Approval Indicated by Signature, states the Assistant City Manager or Department of Management and Budget must sign indicating approval on all individual Division Manager/Department Director, Council-appointed, Court-appointed, and Constitutional Officers' individual purchasing card transactions.

We identified 14 managers or directors who were issued purchasing cards in their names. We reviewed three months of statements (42 total statements) and found only two cardholders had their statements reviewed and signed in compliance with City Administrative Procedure 3.5 consistently for all three months tested. This allows managers and directors to control all aspects of their purchases which increases the risk of unauthorized or inappropriate purchases.

### **Action Plan 01 – Approval Signatures**

The Department of Finance and the Purchasing division will review Administrative Procedure 3.5. The procedure will be revised to maintain the integrity of the lines of authority established by state law, city charter and ordinances while addressing the need for controls such as division of duties and authorization to ensure propriety of purchases with city funds. The Municipal Auditing department will revise its audit program to include annual reviews of purchasing card purchases by constitutional and appointed officials, judges, and City Council. Purchasing card guidelines will include a reference to the revised administrative procedure and the audit process.

### **Management Response 01 – Approval Signatures**

**Finance:** The Department of Finance concurs that the requirements of Administrative Procedure 3.5 must be upheld as they apply to cards held by the aforementioned officials. We believe that prudent internal controls require that all card statements should be subject to review by someone other than the cardholder, regardless of that individual's level of authority within our organization. Department of Finance procedures will be improved to ensure receipt of all card statements inclusive of these approvals.

**Purchasing:** The updated policies and procedures regarding signature authority established by Finance will be added to the new p-card manual. The manual is in the process of revision due to the change in credit card provider. Purchasing will continue

the random selection audit of card charges, and continue to give written notice to users as the city's internal audit process deems appropriate. Purchasing currently does not review final statements submitted to Finance to review signatures, but will follow up according to policy in all training sessions.

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### **Finding 02 – Split Purchases**

The Purchasing Card Program guidelines state each purchasing card will have a per transaction dollar limit. This limit generally may not exceed \$2,500.

We observed nine split purchases through three audit test procedures. This increases the risk that significant expenditures of a department's funds could be made without proper consideration by supervisors authorized to approve higher dollar purchases. Correspondingly, this intensifies the risk that larger purchases will not comply with competitive procurement requirements in place for purchases exceeding \$2,500. In addition, the risk increases that assets exceeding \$5,000 that are required to be entered into the accounting records as capitalized fixed assets will not be identified and booked by the Department of Finance.

The greater convenience of transacting purchases through the purchasing card versus purchase orders appeals to employees. It was noted during our review of these purchases that "splitting transactions" is not explicitly described in the purchasing card guidelines; and as such, employees may not realize the significance of breaking up purchases into smaller components.

### **Action Plan 02 – Split Purchases**

The Purchasing division will include a statement within the text of the purchasing card guidelines that defines the characteristic of a split transaction, the risks associated with splitting transactions, and that explicitly prohibits splitting purchases. The guidelines should also explain that in emergencies or under special circumstances, the Purchasing division may increase transaction limits upon request from department managers provided specific requirements, including documentation proving competitive pricing, are fulfilled. The purchasing card guidelines will also refer cardholders to the purchasing manual for purchases over \$2,500 since there are additional requirements for these purchases.

### **Management Response 02 – Split Purchases**

**Purchasing:** Purchasing continues to address the issue of split purchases through training and division audits. Purchasing will be more explicit with written procedures. The Purchasing Manager has notified departments and given users the option to request a one time credit line increase to make purchases over the \$2,500 threshold; as they have requested the need to make a purchase immediately in order to take advantage of lower pricing. The user is required to provide a minimum of three competitive quotes to the Purchasing Manager for review. Once the quotes are received and reviewed, the card

provider is contacted by Purchasing; and the limit is increased for the exact amount of the purchase for a period of 24 hours to allow the vendor time to process and run the transaction. The user must request, in writing, the one time increase and keep the documentation and approval for their file. Purchasing keeps records of such approvals by documenting the date of the request from the user department, the vendor, the quotes, and the dollar value of the increase. Purchasing is giving the user every opportunity to make a purchase as rapidly as possible and stay in compliance. The knowledge of what is considered a split transaction is explained to each employee who holds a card, as well as the contract administrators. During the reissue of cards in 2005, each cardholder received training on card use. The Purchasing division continues to provide mandatory p-card training for each person receiving cards. As this issue is addressed in the updated procedures manual, it is recommended that users who continue to abuse the card have the card suspended. The department will create manual purchase orders for purchases between \$0.00 and \$2,500.

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### **Finding 03 - Terminated Employees**

Purchasing Card Program guidelines state any changes, including termination of employment, must be reported to the purchasing card administrator via cardholder application form. A memorandum removing or adding employees, canceling cards, etc., must be submitted to the Purchasing division by the department director on a cardholder application form. In addition, Administrative Procedure 2.7, Terminating an Employee, requires departments to obtain all city property from terminating employees, including city issued purchasing cards. It also requires the terminating employee's department to notify the Department of Finance and the Purchasing division to, among other things, cancel the terminating employee's authorization to use the city issued purchasing card.

We identified eight terminated employees on the cardholders list that were later identified and deactivated by the Purchasing division during conversion to the new Purchasing Card Program with Fifth-Third Bank. One employee's termination date was listed as having been on August 5, 2004. Based on our review, no purchases were transacted on these cards after the employees ended their employment with the city. Managers should forward p-card termination paper work to Purchasing immediately as purchasing cards that remain activated after employees are terminated are at risk of being used for unauthorized purchases, even though the physical cards may have been confiscated.

### **Action Plan 03 – Terminated Employees**

Departments should follow the steps in Administrative Procedure 2.7 and ensure that the Purchasing division is provided a date for deactivating the purchasing card that is no later than the employee's last working day.

### **Management Response 03 – Terminated Employees**

**Purchasing:** Purchasing will work with Human Resources to establish a process in which

Purchasing will be notified or can find the terminated employee information. Once a process is identified, the process will be included in the procedures manual.

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#### **Finding 04 - Receipts Not Itemized**

The Purchasing Card Program guidelines indicate that the cardholder must make sure that an itemized receipt is obtained documenting all items purchased.

Out of a sample of 288 receipts examined, we observed 12 receipts throughout our testing that were not itemized. Upon inquiry to departments for clarification and to some vendors for receipt copies, we were satisfied as to the legitimacy of these purchases. Summary receipts provide inadequate detail to enable supervisors to appropriately review [and approve] the goods or services purchased by the card holder. This increases the risk that card holders could purchase goods or services for personal use and benefit.

#### **Action Plan 04 – Receipts Not Itemized**

Municipal Auditing will notify department managers of the identities of employees who did not provide detailed receipts. Department managers should address the importance of requiring detailed receipts with the supervisors of the employees involved. The need for detailed receipts will continue to be emphasized through both training and regular monthly reviews performed by the Department of Finance and the Purchasing division. As the policy on expense documentation is quite clear, and this finding has been consistent throughout past audits, cardholders who continue to neglect the responsibility to provide itemized receipts will have their card privileges suspended.

#### **Management Response 04 – Receipts Not Itemized**

**Finance:** The Department of Finance will continue its policy of reviewing a random sampling of purchasing card transactions each month for adequate documentation. Documentation of the cards reviewed and of the results of each review will be maintained to assist with management of the card program. In the event that the sampling reveals inadequate documentation to support receipts which are not itemized, we will ask departments to provide additional information and resubmit receipts. Should a pattern of nonconformance to this policy be detected, revocation of card privileges will occur.

**Purchasing:** Purchasing continues to make every effort to ensure proper documentation as noted in the Management Response above and concurs that privileges should be suspended for repeat offenders. The new card provider also allows description of purchases using the online system.

The procedures and training have been strengthened from both Purchasing and Finance in the past year. With our increased attention to individual transactions, Purchasing receives an increased amount of calls and questions regarding the proper use of the city

p-card. Our efforts will continue as we work to support city staff on proper use, compliance, and obtaining authorized signatures before submitting the final document to Finance. The use of the card is a time saver to user departments, as well as to the Purchasing division.

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During the audit, we noted other less significant issues related to the administration of the Purchasing Card Program which we communicated to management in a separate memo.

### **CONCLUSION**

Based on the results of our audit, we conclude that purchases appear reasonable and assets purchased were received and retained by the city. Cardholders and departments in general have improved their compliance with policies and procedures when compared with the results of prior years' audits. We conclude that additional improvements are needed to achieve satisfactory compliance with policies and procedures.

We would like to thank the management and staff in the Department of Finance and Purchasing division for their assistance and cooperation in conducting this audit.

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